

NOTICE

There Should Be No Release
of This Document Until
12 Noon (E.S.T.)
Monday, January 31, 1983



**BUDGET
OF THE
UNITED STATES
GOVERNMENT
FISCAL YEAR 1984**

**EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET**

ranted assignment of unfunded benefit promises to the Corporation.

Federal employee retirement and disability.—Federal employee retirement and disability programs include a number of Federal employee retirement programs in the legislative, judicial, and executive branches. The largest program is the civil service retirement and disability program. Outlays for Federal employee retirement and disability are estimated to increase from \$20.9 billion in 1983 to \$22.2 billion in 1984.

Retirement and disability programs.—The Federal employee retirement system is one of the most generous pension plans available in the United States. Workers' contributions cover only 20% of the cost of the system; the Federal taxpayer pays the remaining 80%.

Legislation is proposed that would reform the civil service system to deal with the problems created by these factors. This legislative package includes:

- **Annuity adjustment for early retirement.**—Current law provides that civil service employees may retire as early as age 55 with 30 years service and receive full benefits. By contrast, social security provides no retirement benefits before age 62. The proposal would continue to permit retirement at age 55 with 30 years service, but annuities would be reduced by an actuarial factor—5% for each year the worker chooses to retire prior to age 65. This change would be phased in over a period of 10 years, and employees age 55 or over at enactment would not be affected. The proposal is a responsible, measured way to address the early retirement problem. Since the average age at which Federal employees retire is 61, few will experience the full reduction. In addition, the reduction would not apply to persons retiring because of disability.
- **Cost-of-living adjustments (COLAs).**—As part of a proposed Government-wide COLA policy, this proposal would freeze the cost-of-living adjustment for 1984. The proposal would also make permanent the current limitation on cost-of-living adjustments (COLAs) for non-disability retirees under age 62 by allowing one-half the full COLA increase after 1985. Under current law, the limitation of one-half of specified COLA increases expires at the end of fiscal year 1985.
- **Increase employee deductions for retirement.**—Although retirement costs have skyrocketed, the amount withheld from Federal employees' salaries has remained constant at 7% since 1969. This has resulted in a significant departure from the principle that employees should pay 50% of the cost of the

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retirement system. The proposal would increase employee de-
ductions to 9% in 1984 and to 11% in 1985. This represents
approximately one-half of the cost of civil service retirement,
taking into account the other reforms proposed.

- *Increase employer deductions for retirement.*—Employer con-
tributions for retirement would also increase to match the
increase in employee deductions described above. This would
include matching contributions from other entities including
the U.S. Postal Service, and the District of Columbia Govern-
ment, for employees who participate in the Civil Service Re-
tirement System.
- *Base annuity calculations on the retirees' highest 5 years of
earnings, instead of the current highest 3.*—As recently as
1969, the formula for computing annuities was based on the
average of an employee's 5 highest salary years; since then
the three highest salary years have been used. With a return
to more moderate inflation levels, it is sensible to use the
highest 5 years as the base. Employees within 3 years of
retirement eligibility would not be affected by the change.
- *Modify replacement rates.*—Currently, a formula is used that
determines the percentage of salary that is replaced by retire-
ment benefits. For example, this replacement rate is now
56.25% of the final 3 years' salary for 30 years of service. The
administration would alter this formula to reduce the replace-
ment rate, if necessary in conjunction with other proposals, to
reduce the cost of the system to 22% of payroll and enable
employer contributions to be limited to 11% of salary.

Federal employees workers' compensation.—Federal employees or
their survivors are provided tax-free cash and medical benefits for
job-related injuries, illnesses, or deaths. About 47,000 workers with
long-term disabilities, or their survivors are expected to receive
monthly payments in 1984. This is 1,000 fewer than in 1983 be-
cause of increased efforts to return recipients to work and to
remove those no longer eligible from the rolls. Outlays are estimat-
ed to decrease from \$218 million in 1983 to \$211 million in 1984 as
a result of the proposal to delay the cost-of-living increase for 1
year.

Unemployment compensation.—About 97% of wage and salaried
employment in the United States is covered by unemployment
compensation programs that pay benefits to individuals who are
temporarily out of work and are searching for jobs. Based on the
economic assumptions described in Part 2, an estimated average of
5.4 million workers per week will receive unemployment benefits
during 1983 and 4.6 million workers in 1984. Outlays are estimated
to decrease from \$36.9 billion in 1983 to \$28.8 billion in 1984 due to